COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5369-01
Bill No.: SB 684
Subject: Historic Preservation; Housing; Taxation and Revenue - Income; Tax Credits
Type: Original
Date: February 21, 2012

Bill Summary: This proposal places a one year moratorium on the authorization of certain tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	$0 to Unknown	$0 to Unknown	$0 to Unknown greater than $32,500,000
Total Estimated Net Effect on General Revenue Fund	**$0 to Unknown**	**$0 to Unknown**	**$0 to Unknown greater than $32,500,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume this proposal places a one-year moratorium on the authorizations of MDFB Infrastructure, Historic, and LIHTC credits, beginning upon the bill's enactment. BAP assumes it would become effective July 1, 2012, but the actual effective date could be sooner, which would alter the timing of any revenue impacts. This proposal would reduce the issuance and redemption of credits in future fiscal years.

However, this proposal may temporarily reduce economic activity and associated induced revenues until the moratorium ends, thereby reducing General and Total State Revenues. BAP does not have an estimate of these losses.

Officials at the **Missouri Development Finance Board (MDFB)** assume MDFB credits are demand driven and MDFB does not always authorize up to the current statutory cap of $10 million each calendar year. It is likely there would be little or no impact from the normal course of business during Fiscal Year 2013. Any potential impact to State Revenue could be recognized during Fiscal Years 2014-2016. The impact would most likely be the difference between the total $10 million authorization cap and the amount authorized prior to the enacted legislation. For instance, if MDFB authorizes all $10 million of the cap prior to the effective date, the impact would be $-0-. If MDFB issues between $0 and less than $10 prior to the effective date, the difference would most likely be issued and redeemed over the next 3 fiscal years. This is due to the fact that tax credit agreements typically give a project 3 years to utilize their credits. Thus if MDFB authorized $5 million, prior to the effective date, the $5 million in savings ($10 million cap - $5 million authorization), would save the state $1.6 million over the next 3 fiscal years ($5million / 3 years).

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Infrastructure Tax Credit program has had and projects to have the following activity;

	FY 2010	FY 2011	FY 2012 (projected)	FY 2013 (projected)
Certificates Issued (#)	234	352	200	200
Projects (#)	9	8	7	5
Amount Authorized	$6,550,000	$693,000	$6,000,000	$10,000,000
Amount Issued	$39,203,730	$15,990,013	$13,884,236	$10,000,000
Amount Redeemed	$13,970,215	$25,597,348	$31,178,827	$15,887,629

ASSUMPTION (continued)

Oversight will reflect a $0 to Unknown savings in each fiscal year of the fiscal note as a result of the moratorium of issuance of the Infrastructure Contribution tax credit. Oversight is unsure of the lag time between authorization of projects, issuance of credits and redemption of those credits and how this proposal will impact those three. The MDFB issued $19.7 million in credits under this program in FY 2009, $39.2 million in FY 2010 and $15.9 million in FY 2011. According to the Tax Credit Analysis form prepared for the budget, the anticipated issuance amounts for this program are $13.8 million in FY 2012 and $10 million in FY 2013.

Officials at the **Missouri Housing Development Commission** assume the proposal imposes a 12 month moratorium on both the 4% and 9% Missouri Low Income Housing Tax Credits (MOLIHTC). Assuming the proposal would take effect on August 28, 2012, the total reduction in authorizations for MOLIHTC would be in FY 2013. The estimated authorizations for FY 2013 would be $12.5 million for the 9% MOLIHTC and $6 million for the 4% for a total of $18.5 million. Due to the lag time between authorization, issuance and redemptions, the impact of the moratorium to the MOLIHTC would result in a savings of $18.5 million starting in FY 2015 and thereafter for ten years.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Low-Income Housing Tax Credit program has had and projects to have the following activity;

	FY 2009	FY 2010	FY 2011	FY 2012 (projected)	FY 2013 (projected)
Certificates Issued (#)	417	303	212	440	238
Projects (#)	57	35	26	50	27
Amount Authorized	$316,175,550	$149,068,200	$102,960,000	$185,000,000	$185,000,000
Amount Issued	$145,997,420	$155,703,625	$156,016,305	$167,967,905	$167,912,322
Amount Redeemed	$105,967,104	$142,141,458	$143,055,387	$170,162,272	$202,405,513

Oversight assumes tax credits in this proposal are authorized at the time a project is approved but those tax credits are not issued until the project is completed and eligible costs are certified, approximately two years later. There could be an additional delay between the issuance of tax credits and redemptions. This means that any reduction in tax credit program costs, and any actual savings on a budget or cash flow basis would not happen until two years after the reduction in tax credits authorized for the program.

Oversight will utilize the MHDC's estimate in the delay between the tax credit authorization (when project approved - assumed to be FY 2013) versus issuance (when project completed - assumed to be FY 2015). If the state 'skips' a year of low income housing tax credit project

ASSUMPTION (continued)

authorizations, the ten year flow of tax credits will be savings to the state from FY 2015 to FY 2025.

Officials at the **Department of Economic Development** assume this proposal places a 12-month moratorium on certain tax credit programs, including the Historic Preservation Tax Credit program (253.550) administered by DED's Division of Business and Community Services. The Department assumes an unknown positive fiscal impact over $100,000 as a result. The 12-month moratorium begins on the effective date of the act.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation Tax Credit program has had and projects to have the following activity;

Historic Preservation Tax Credit

	FY 2009	FY 2010	FY 2011	FY 2012 (projected)	FY 2013 (projected)
Certificates Issued (#)	197	219	161	200	200
Projects (#)	197	219	161	200	200
Amount Authorized	$211,950,941	$99,510,175	$82,839,495	$100,000,000	$100,000,000
Amount Issued	$119,914,948	$107,229,218	$116,244,410	$100,000,000	$100,000,000
Amount Redeemed	$186,426,164	$108,064,200	$107,767,393	$110,000,000	$110,000,000

Oversight assumes tax credits in this proposal are authorized at the time a project is approved but those tax credits are not issued until the project is completed and eligible costs are certified, approximately two years later. There could be an additional delay between the issuance of tax credits and redemptions. This means that any reduction in tax credit program costs, and any actual savings on a budget or cash flow basis would not happen until two years after the reduction in tax credits authorized for the program.

Oversight will utilize the DED's estimate in the delay between the tax credit authorization (when project approved - assumed to be FY 2013) versus issuance (when project completed - assumed to be FY 2015). If the state 'skips' a year of historic preservation tax credit project authorizations, the ten year flow of tax credits will be savings to the state from FY 2015 to FY 2025.

Oversight assumes for the simplicity of the fiscal note that the one year moratorium on authorizations of the tax credits will begin on July 1, 2012 and end on June 30, 2013.

ASSUMPTION (continued)

Oversight assumes that due to the emergency clause on this proposal it is possible that the proposal would become effective before the end of the current fiscal year. Therefor the agencies would be able to authorize tax credits before and after the moratorium ends. If that were to happen then no savings would occur. Oversight will show the impact of this proposal as zero to the annual authorization cap based on the effective date.

Oversight assumes the changes to existing programs in this proposal could have an impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect them in the fiscal note.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
Revenue Increase - one year moratorium on the authorization of the following tax credits			
Infrastructure Tax Credit	$0 to Unknown	$0 to Unknown	$0 to Unknown
Low-Income Housing Tax Credit	$0	$0	$0 to $18,500,000
Historic Preservation Tax Credit	$0	$0	$0 to $14,000,000
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to Unknown**	**$0 to Unknown**	**$0 to Unknown greater than $32,500,000**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

JH:LR:OD

FISCAL DESCRIPTION

This act prohibits the authorization for issuance of Low Income Housing Tax Credits, Missouri Development Finance Board Infrastructure Development Fund Contribution Tax Credits, and Historic Preservation Tax Credits for the one year period beginning on the effective date of the act.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Missouri Development Finance Board
Missouri Housing Development Board

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JH:LR:OD